Congress of the United States
House of Representatives
COMMITTEE ON WAYS AND MEANS
WASHINGTON, DC 20515

SUBCOMMITTEE ON SOCIAL SECURITY

July 17, 2013

Ed Lorenzen
Executive Director
The Moment of Truth Project
Committee for a Responsible Federal Budget
1225 Eye Street, NW Suite 1000
Washington, DC 20005

Dear Mr. Lorenzen:

Thank you for your testimony before the Committee on Ways and Means Subcommittee on Social Security at the May 23, 2013 hearing on proposed adjustments to Social Security benefits, the third hearing in a series on "The President's and Other Bipartisan Entitlement Reform Proposals." In order to complete our hearing record, we would appreciate your response to the following question:

1. Plans offered by the Simpson-Bowles Commission and the Bipartisan Policy Center's Debt Reduction Task Force addressed increases in life expectancy, but in different ways. Your members decided to increase both the early eligibility age (EEA) and full retirement age (FRA) and you also included a hardship exemption for those who may not qualify for disability benefits but who are physically unable to work beyond age 62. Please discuss your approach and how your members decided this was the right way to go.

2. Under your plan, the Commissioner of Social Security would be asked to develop the hardship exemption. The plan noted that establishing a hardship exemption would be complicated to do. Why was this important to include and why didn't the plan include details beyond directions to the Commissioner?

3. How did your Members decide which earners would be held harmless from the Commission's benefit formula change?

4. Why did the Simpson-Bowles Commission use a years-based approach for the long time beneficiary increase? How would you recommend constructing a long time beneficiary increase?

5. Based on the principles used to develop your plan, if changes to the benefit formula were being made today, would you still hold those 55 and older harmless to benefit changes or is it more important to begin the changes in 2017?

We would appreciate your responses to these questions by ***July 31 2013***. Please send your response to the attention of Kim Hildred, Staff Director, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, B-317 Rayburn House Office Building, Washington, DC 20515. In addition to a hard copy, please submit an electronic copy of your response in Microsoft Word format to jessica.cameron@mail.house.gov.

Thank you for taking the time to answer these questions for the record. If you have any questions concerning this request, you may reach Kim at (202) 225-9263.

Sincerely,

Sam Johnson

SAM JOHNSON
Chairman

Response to Questions for the Record

1) The Commission chose to address increases in life expectancy through an increase in the Full Retirement Age and Early Eligibility Age because increasing the eligibility age provides a valuable incentive to encourage longer work lives as life expectancy increases. This incentive has multiple policy benefits, including stronger economic growth.

   The Social Security Normal Retirement Age serves as a powerful signal for retirement, and gradually increasing it would likely encourage those who can to work longer, thereby helping to reduce Social Security's shortfalls. According to a report issued by the Congressional Budget Office last year, raising the normal retirement age by 3 years would increase the size of the economy by 1 percent by 2035 as a result of people working longer.[1] Raising the early retirement age by 2 years would have a similar effect.

   By contrast, the approach taken in the Domenci-Rivlin proposal of adjusting benefits to reflect increased life expectancy would encourage workers to accept lower initial benefits in order to retire at current eligibility ages even if they are physically able to work longer. This would both deprive the economy of quality workers as we face labor shortages in the future and risk retirees receiving inadequate benefit levels in the latter part of retirement when they no longer have other sources of income. The approach taken in the Simpson-Bowles Commission would encourage workers to continue working and maximize benefit levels, while creating a hardship exemption which w

2) The Commission recommended charging the Social Security Administration with designing a policy over the next ten years that best targets this population, and directing the Commission to consider relevant factors such as the physical demands of labor and lifetime earnings in developing eligibility criteria, instead of specifying the criteria for the hardship exemption. There is limited data about the reasons workers retire early and analysis about which workers who retire before Normal Retirement Age do so for reasons of convenience as opposed to those for whom delaying retirement would pose a hardship. The best analysis we were able to find was a study conducted by the Rand Corporation for AARP which found that nineteen percent of individuals who retired at the early eligibility age self-reported doing so for health reasons.

   The Commission decided that further research and analysis is necessary to accurately identify the workers for whom an increase in age would pose a hardship and develop appropriate criteria for determining hardship. In addition, there would be time for SSA to conduct research and properly design a hardship exemption before the increases in retirement age began.

3) The Commission members only explicated decided to hold the lowest income workers harmless from changes in the benefit formula. Few were held harmless from the formula changes – only those with *very* low income (PIA all in the 90% factor) or those with an offsetting minimum benefit – but Commission members did want the benefit formula to be

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[1]CBO, (January 2012): Raising the Ages of Eligibility for Medicare and Social Security. http://cbo.gov/publication/42683

progressive with the greatest reductions focused on the upper half of the income scale. For the bottom half of the population, the 32 factor was gradually reduced to 30. For the top half, factors of 10 and 5 would eventually replace the current factors of 32 and 15. Recognizing that resources are limited, there was near universal consensus on the commission that those most able to afford their retirement should contribute the most toward solvency by accepting slower growth in their overall benefits. Though all beneficiaries in the top half would experience somewhat slower growth than current law, those at the very top would see the biggest change.

It was important for our commissioners that those in the bottom quintile not experience a decrease in their scheduled benefit levels. While the minimum benefit and other provisions would provide improvements in poverty and the plan outlined in the final report would increase benefits for many low-income workers and reduce poverty among seniors, tweaks of the minimum benefit and benefit formula outlined in the Commission's report will be necessary in order to fully achieve the intent of Commission members who supported the final recommendations regarding protecting benefits for workers in the bottom quintile. Subsequent analysis of the original plan found that the plan would result in a slight reduction in scheduled benefits for the median retiree in the bottom quintile. This is primarily a result of a number of future retirees with short or intermittent work histories would not be adequately protected by the new minimum benefit which was targeted toward full-career workers.

Upon learning of this unintended consequence, the Commission co-chairs reiterated their commitment to the members of the commission and asked staff to eliminate the benefit reduction in the bottom quintile. In order to fulfill this commitment, Moment of Truth Project staff worked with the Urban Institute to identify two modifications which together would achieve the goal of avoiding a reduction for the median retiree in the bottom quintile.

The first modification would make the formula change even more progressive by increasing the bottom replacement factor from 90 percent to 95 percent and establishing the 10 percent bend point at the 40th percentile (the Commission's 2010 report put it at the 50th percentile). The second modification would phase-up the minimum benefit more rapidly for retirees with less work history –from 0 to 110 percent of poverty between 10 and 20 years of work history, then to 125 percent for 30 years and 140 percent for 40 years – and credit workers for quarters of coverage toward the minimum benefits in years with less than four quarters of coverage. In addition, several anti-abuse measures would be added to the minimum benefit to prevent certain wealthier individuals with substantial retirement income from outside Social Security from over-collecting.

With the appropriate design details, these two changes would be roughly cost-neutral, but would offer far more robust benefits for those in the bottom quintile and far better poverty protections than was provided either in the original Commission plan or under the current system.[2]

[2] In this particular formulation, the minimum benefit would be phased in between 2017 and 2023 to avoid benefit notches and would be calculated based on the poverty line through 2023, after which it would be indexed to wage growth. .

4) The year-based approach had two advantages over the age-based approach. First, it allowed us to provide the same protections to long-time disabled as long-time retired beneficiaries. For both groups the more time out of the labor force the greater chance savings will be depleted. A uniform bump-up seemed like the best approach to deal with this. The second advantage of the year-based approach is that, when combined with an increase in the EEA, it reflects improvements in life expectancy by increasing as people are living longer.

5) There was no hold harmless principle for workers above a certain age in the Fiscal Commission recommendations. We wanted to apply benefit formula changes to new beneficiaries only, and we wanted to make changes gradually to give workers time to plan.

   Given the current state of Social Security finances, delaying the implementation date of benefit changes would require the benefit changes to be greater for the age cohorts who are subject to changes as more workers would be exempt from changes and the necessary savings would be spread out among a smaller number of beneficiaries. This underscores the importance of acting sooner than later in addressing the shortfalls facing Social Security. Delaying action will require policymakers to choose between implementing benefit changes on workers close to retirement or imposing greater benefit changes on other beneficiaries. Given our desire to spread the burden of changes fairly across age cohorts and phase in changes gradually, we would likely choose to keep implementation of benefit changes in 2017 or shortly thereafter.